

Indiana State Teachers' Retirement Fund Request for Information (RFI)

I. Introduction

The Indiana State Teachers' Retirement Fund (hereinafter known as TRF) is searching for investment managers to manage \$70-80 million in a value added commingled fund.

II. General Search Process

TRF announces a search for investment management services by advertising in Pensions & Investments and at least one local publication. Callan Associates assists with the search. All managers in Callan's Investment Manager Database, with updated information on the desired investment vehicles, are automatically considered in the search and do not need to provide additional information. If an interested firm is not currently in Callan's database, the firm must complete and return Callan's Investment Manager Questionnaire. All potential investment managers are encouraged to indicate their interest in the search and/or request questionnaires by contacting Sarah Snyder at Callan at snyder@callan.com or 415-274-3009.

Potential managers are evaluated by the staffs of Callan and TRF, based on criteria outlined in Section IV., **Evaluation Criteria**. Semifinalists chosen through this evaluation process and reviewed by Callan's Investment Committee are then sent Requests for Proposal. Finalists chosen after review of the RFP's are visited and interviewed by the staffs of Callan and TRF. TRF staff will make a recommendation for selection to TRF's Board of Trustees. The TRF Board of Trustees makes all final decisions on the selection of qualified investment managers.

III. Manager Search Timeline

The following timeline is expected for the search. It is subject to change at the discretion of the Board of Trustees and/or staff.

<u>Activity</u>	<u>Completion Date</u>
RFI advertised	January 22, 2007
Respondents Indications of Interest due	February 2, 2007
Callan questionnaire submitted if needed	February 26, 2007
Semifinalists sent RFP's	March 27, 2007
Proposal submission date	April 3, 2007
Interviews & due diligence	Week of April 9 th
Managers approved by Board of Trustees	April 24, 2007
Notify selected candidates	April 25, 2007
Document execution	May
Investment vehicles funded	June 1, 2007

IV. Evaluation Criteria

All potential candidates for the real estate value added commingled fund search will be evaluated using the following criteria:

A. **Organization**

1. **Type of Firm**-The types of firms that can be considered would include: banks, registered investment advisors and insurance companies.
2. **Real Estate Assets Under Management**-Candidates should have sufficient assets under management to support the professional staff required to successfully acquire, manage, and sell real estate. Preferred firms will have \$1 billion of real estate assets under management.
3. **Business Focus**-We prefer candidates with an established focus on implementing value added real estate investment strategies in a commingled fund format.
4. **Key Personnel & Investment Staff**-Investment staff should be of sufficient depth and breadth to perform ongoing duties of the firm. The candidate must demonstrate that the key professionals currently involved in managing the portfolio were the prime contributors to the record being evaluated. The preferred candidates will have at least two key professionals with a minimum of 10 years of experience and preferably with 5 years in the current setting. We will give preference to candidates that can demonstrate the historical ability to attract and retain senior real estate professionals that are dedicated to the management of value-added commingled funds.
5. **Reporting**-We prefer candidates who have the resources and commitment to provide timely and accurate quarterly reports, financial statements, and commingled-fund rates of return. Reports should be compatible with reporting requirements of the Fund's custodian.

B. **Investment Management and Investment Vehicle**

1. **Vehicle Structure**-The vehicle structure should be a value added closed end commingled fund.
2. **Vehicle Size**-Eligible commingled funds should be targeting around \$250 million in commitments.
3. **Investment Approach**-TRF is seeking value added commingled funds that use re-leasing, repositioning, and/or re-development strategies to generate higher levels of capital appreciation than is normally associated

with core investments. It is preferred that candidate funds seek broad diversification with respect to property types and geography. It is preferred that the candidate funds would be primarily domestic (U.S.) focused. Preference will be given to candidates with a culture that is “research oriented” as opposed to “deal” oriented. For example, candidates that do their own “top down” research and that incorporate their insights in portfolios are preferred. Candidates should also use their research as a basis for managing and controlling risk.

4. **Use of Leverage**-Leveraged investments are acceptable. Total portfolio leverage may exceed that normally associated with “core” real estate investments, and should fall in the range of 50-80 percent. It is preferred that leverage be less than 75 percent.
5. **Offering Schedule**-TRF would like to begin investing within the next twelve months, however would be willing to wait up to twenty-four months for a fund to be open for new investors.
6. **Appraisal and Audit Policy**-The preferred candidates should be able to provide clear policies for internal and external appraisals and external audits. Such policies should reflect current industry standards.
7. **Investor Rights and Controls**-We will give preference to commingled funds that afford investors certain “rights”, such as the ability to vote and remove the investment manager in specific situations. Candidates should have a stated policy with respect to handling transfer rights for closed end funds.

C. **Performance**

Strategy Experience-Candidates should be able to demonstrate that they have prior experience in managing “value added” real estate portfolios. Candidates must have at least one prior, value added fund that has realized a significant portion of its investments

Historical Performance Evaluation-We will look at prior fund(s) with similar strategies to evaluate historical performance. We will examine the following:

- a) Prior fund vintage year-real estate market cycles could impact returns
- b) Original fund return objectives-to compare to actual fund returns

- c) Number of investments in each fund
- d) Number of investments sold to date-gives an idea of holding period
- e) The invested capital amount
- f) Capital distributed back to investors
- g) The fund(s) current net asset value (if not completely liquidated)
- h) The equity multiple
- i) Realized IRR's
- j) Since inception IRR's-gross and net
- k) Since inception time weighted returns-to compare to NCREIF

D. Fees

Fee Rates (as determined by a projected fee analysis) should be competitive and the fee structure should align the manager's interests with those of investors.

It is TRF's policy that no member of the Board, employee of the Fund, consultant, or advisor to the Fund shall be contacted by interested firms once Indications of Interest are due or a completed questionnaire is submitted (for those firms not currently in Callan's database). However, TRF does reserve the right to initiate discussions with firms to make clarifications and resolve minor issues.

The solicitations of Indications of Interest in no way obligates TRF to ultimately hire any investment manager.

Confidential Information

Respondents are advised that materials contained in responses are subject to the Indiana Public Records Act, IC 5-14-3 et seq., and, after the contract award, may be viewed and copied by any member of the public, including news agencies and competitors. Respondents claiming a statutory exception to the Indiana Public Records Act must place all confidential documents (including the requisite number of copies) in a sealed envelope clearly marked "Confidential" and must indicate in the transmittal letter and on the outside of that envelope that confidential materials are included. The Respondent must also specify which statutory exception provision applies. TRF reserves the right to make

final determinations of confidentiality. If TRF does not agree that the information designated is confidential under one of the disclosure exceptions to the Indiana Public Records Act, it may either reject the response or discuss its interpretation of the allowable exceptions with the Respondent. If agreement can be reached, the response will be considered. If agreement cannot be reached, TRF will remove the response from consideration for award and return the response to the Respondent. TRF will not consider information regarding compensation to be confidential information.